

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Lee Township	County Midland
Audit Date 3/31/05	Opinion Date 6/28/05	Date Accountant Report Submitted to State: 9/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

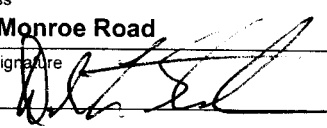
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Dale L. Stanton, CPA			
Street Address 3278 E. Monroe Road		City Midland	State MI
Accountant Signature 		ZIP 48642	Date 9/29/05

LEE TOWNSHIP
TOWNSHIP BOARD

David Yost
Supervisor

Dale Wolfgang
Trustee

Michael Glynn
Trustee

Ron Rippee
Clerk

William Stewart
Treasurer

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Dale L. Stanton
Certified Public Accountant

To the Township Board
Lee Township
Midland, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of Lee Township, Midland County, Michigan, as of March 31, 2005, and for the year then ended, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lee Township's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of Lee Township as of March 31, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule is not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lee Township's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material aspects in relation to the financial statements taken as a whole.


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To the Township Board
Lee Township
Midland, Michigan

As described in the footnotes, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements as of April 1, 2004.



Dale L. Stanton
Certified Public Accountant

June 28, 2005

3278 E Monroe Road
Midland, MI 48642

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Lee Township
Management's Discussion and Analysis
For the Fiscal Year Ended March 31, 2005

The Management's Discussion and Analysis report of Lee Township covers the Township's financial performance during the year ended March 31, 2005.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2005, totaled \$1,379,496 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$587,851 from governmental activities. Governmental activities had a \$90,612 decrease in net assets with no major road improvements.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements, which focus on individual parts of the Township in more detail.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Lee Township
Management's Discussion and Analysis
For the Fiscal Year Ended March 31, 2005

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental Category. These funds are presented on the modified accrual basis, which is designated to Show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

We continue to pay our loan through Chemical Bank. Our original loan was taken out in 2000, in the amount of \$38,000.

Our cash position for the governmental activities remain strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The Township had General Fund revenues in excess of expenditures for the year in the amount of \$16,703.

Lee Township
Management's Discussion and Analysis
For the Fiscal Year Ended March 31, 2005

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$12,000 in capital assets during the year ending March 31, 2004.

The Township's governmental activities paid \$15,542 of principal on the note payable.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income. We continue to grow in taxable values.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Township Clerk or Township Treasurer at (give address).

Lee Township
Statement of Net Assets
March 31, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,096,639	\$ -	\$ 1,096,639
Receivables (Net)	752,936	-	752,936
Prepaid Expenses	293	-	293
Capital Assets - Net	299,754	-	299,754
Total Assets	2,149,622	-	2,149,622
LIABILITIES			
Accounts Payable	23,426	-	23,426
Accrued and Other Liabilities	669,161	-	669,161
Deferred Revenue	47,445	-	47,445
Current Portion of Long-term Debt	6,042	-	6,042
Noncurrent Liabilities:			
Due in More Than One Year	6,042	-	6,042
Total Liabilities	752,116	-	752,116
NET ASSETS			
Invested in Capital Assets			
Net of Related Debt	299,754	-	299,754
Restricted for			
Public Programs	-	-	-
Other Purposes	-	-	-
Unrestricted	1,097,752	-	1,097,752
Total Net Assets	\$ 1,397,506	\$ -	\$ 1,397,506

The accompanying notes are an integral part of these financial statements.

Lee Township
Statement of Activities
For the Year Ending March 31, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary Government						
Legislative	\$ 41,748	\$ -	\$ -	\$ (41,748)	\$ -	\$ (41,748)
General Government	155,834	-	-	(155,834)	-	(155,834)
Public Safety	144,346	-	-	(19,729)	-	(19,729)
Public Works	200,803	-	-	(52,367)	-	(52,367)
Total Governmental Activities	542,731	273,053	-	(269,678)	-	(269,678)
Business-Type Activities						
Business-type activity	-	-	-	-	-	-
Total Primary Government	\$ 542,731	\$ 273,053	\$ -	(269,678)	-	(269,678)
General Revenues						
Unrestricted Investment Earnings						
Other Charges for Services				6,678	-	6,678
State Revenue Sharing				58,277	-	58,277
Miscellaneous				241,308	-	241,308
Transfers				8,533	-	8,533
Total General Revenues and Transfers				314,796	-	314,795
Change in Net Assets				45,118	-	45,118
Net Assets - Beginning				1,352,388	-	1,352,388
Net Assets - Ending				\$ 1,397,506	\$ -	\$ 1,397,506

The accompanying notes are an integral part of these financial statements.

Lee Township
Governmental Funds
Balance Sheet
March 31, 2005

	General	Fire Fund	Solid Waste Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash in Bank and Investments	\$ 921,189	\$ 175,450	\$ -	\$ -	\$ 1,096,639
Property Taxes and Assessments Receivable	2,942	18,106	29,355	897	51,300
Due from Other Funds	284,467	118,282	239,404	9,836	651,989
Due from Other Units of Government	49,648	-	-	-	49,648
Prepaid Expenses	293	-	-	-	293
Total Assets	<u>\$ 1,258,539</u>	<u>\$ 311,838</u>	<u>\$ 268,759</u>	<u>\$ 10,733</u>	<u>\$ 1,849,869</u>
Liabilities					
Accounts Payable	\$ 7,354	\$ 12,776	\$ 3,296	\$ -	\$ 23,426
Due to Other Funds	367,522	75,516	201,039	-	644,077
Payroll Liabilities Payable	1,462	-	-	-	1,462
Accrued Wages	4,750	3,910	643	-	9,303
Pension Plan Payable	7,332	6,988	-	-	14,320
Accrued Interest	-	-	-	-	-
Deferred Revenue	-	18,090	29,355	-	47,445
Total Liabilities	<u>388,420</u>	<u>117,280</u>	<u>234,333</u>	<u>-</u>	<u>740,033</u>
Fund Balances:					
Unreserved:					
Undesignated	870,119	194,558	34,426	10,733	1,109,836
Total Fund Balances	<u>870,119</u>	<u>194,558</u>	<u>34,426</u>	<u>10,733</u>	<u>1,109,836</u>
Total Liabilities and Fund Equity	<u>\$ 1,258,539</u>	<u>\$ 311,838</u>	<u>\$ 268,759</u>	<u>\$ 10,733</u>	<u>\$ 1,849,869</u>

The accompanying notes are an integral part of this financial statement.

Lee Township
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Assets
March 31, 2005

Total Fund Balances for Governmental Funds \$ 1,109,836

Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital Assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Buildings	\$ 149,179	
Land Improvements	22,297	
Vehicles	306,565	
Equipment	115,686	
Accumulated Depreciation	<u>(293,973)</u>	299,754

Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds.

Notes Payable (12,084)

Net Assets of Governmental Activities \$ 1,397,506

The accompanying notes are an integral part of these financial statements.

Lee Township
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended March 31, 2005

	General	Fire Fund	Solid Waste Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues:					
Property Taxes	\$ 53,288	\$ -	\$ -	\$ -	\$ 53,288
State Revenue Sharing	241,308	-	-	-	241,308
Charges for Services	2,514	24,450	-	-	26,964
Special Assessments	-	100,167	145,926	2,510	248,603
Interest	5,108	1,571	-	-	6,679
Rental Revenue	2,475	-	-	-	2,475
Miscellaneous Revenue	7,566	967	-	-	8,533
Total Revenue	312,259	127,155	145,926	2,510	587,850
Expenditures:					
Legislative					
General Government	41,748	-	-	-	41,748
Public Safety	148,450	-	-	-	148,450
Public Works	24,168	101,454	-	-	125,622
Capital Outlay	81,191	-	117,229	1,183	199,603
Total Expenditures	295,557	101,454	117,229	1,183	515,423
Excess (Deficiency) of Revenues Over Expenditures	16,702	25,701	28,697	1,327	72,427
Transfers In	-	-	-	-	-
Transfers (Out)	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	16,702	25,701	28,697	1,327	72,427
Fund Balance - April 1, 2004	853,417	168,857	5,729	9,406	1,037,409
Fund Balance - March 31, 2005	\$ 870,119	\$ 194,558	\$ 34,426	\$ 10,733	\$ 1,109,836

The accompanying notes are an integral part of this financial statement.

Lee Township
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance to the Statement of Activities
For the Year Ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds		\$ 72,427
Amounts reported for governmental activities are different because:		
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation in the statement of activities.		
Depreciation Expense	\$ (27,309)	
Capital Outlay	-	(27,309)
Change in Net Assets of Governmental Activities		<u>\$ 45,118</u>

The accompanying notes are an integral part of these financial statements.

Lee Township
Notes to Financial Statements
March 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Lee Township, Midland County, was organized prior to 1900 and covers approximately 36 square miles with the Township's seat located within the boundaries of the Township. The Township operates under the directorship of a Township board consisting of five members. The Township provides the following services: Public safety, highways and streets, culture and recreation, refuse collection, public improvements and general administrative services.

Component Units:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" certain other governmental organizations are not considered to be part of the Township for financial reporting purposes. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the potential component unit data was not included. The Township has determined that no other outside organization meets the above criteria and, therefore, no other entity has been included as a component unit in the Township's financial statements.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Township adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

Lee Township
Notes to Financial Statements
March 31, 2005

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are

Lee Township
Notes to Financial Statements
March 31, 2005

collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Lee Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* is used to account for the financial activity of the Township's fire department.

The *Solid Waste Fund* is used to account for revenue received for the operation of the Township's solid waste disposal equipment.

Fiduciary funds are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the Township in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements. Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Agency funds are custodial in nature and do not involve measurements of results of operations.

Additionally, Lee Township reports the following fund types:

Lee Township
Notes to Financial Statements
March 31, 2005

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments - The Township's investment policy is in compliance with state law and authorizes the Township to invest in passbook savings accounts, negotiable and nonnegotiable certificates of deposit, repurchase agreements backed by the United States government or federal agency obligations, United States Treasury bills and bonds, bankers acceptances, federal agency instruments, money market funds and commercial paper. Investments in commercial paper must be rated in one of the two highest rating categories by Standard and Poor's or Moody's and are limited to fifty percent of a funds portfolio in accordance with state statutes.

Lee Township
Notes to Financial Statements
March 31, 2005

Investments are stated at fair value which is determined using selected bases. Securities traded on a national exchange are valued at the last reported sales price. Managed funds not listed on an established market are reported at fair value as determined by the respective fund managers based on quoted prices of underlying securities.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. Township taxes are levied and due July 1, and become delinquent after August 14. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2004 taxable valuation of Lee Township totaled \$58,951,611, on which ad valorem taxes levied consisted of .8647 mills for operating purposes.

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Certain resources of the Township, are classified as restricted assets on the balance sheet because their use is limited.

Lee Township
Notes to Financial Statements
March 31, 2005

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment of the primary government, as well as the component unit are depreciated using the straight-line method over the following estimated useful lives:

ASSETS	YEARS
Buildings	50
Infrastructure	50
Land Improvements	20
Machinery and Equipment	5-10
Office Equipment	5-10
Vehicles	5-10

6. Compensated Absences

Employees are not allowed to accumulate vacation and sick pay and therefore, no accumulated amount has been shown in the financial statements in accordance with Governmental Accounting Standards Board's Statement No. 16 "Accounting for Compensated Absences."

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Lee Township
Notes to Financial Statements
March 31, 2005

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted by a majority vote of the Township Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Council.
7. The adopted budgets are used a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budget amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Council during the fiscal year.

Lee Township
Notes to Financial Statements
March 31, 2005

B. Major funds with expenditures in excess of appropriations were as follows:

P.A. 621 of 1978, Section 18(1), as amended, provided that local units shall not incur expenditures in excess of the amount appropriated. The Township adopted budgets on a basis consistent with generally accepted accounting principles (GAAP) for the General and Special Revenue Funds. The approved budgets of the Township were adopted to the activity level. Budgeted amounts are as originally adopted, or amended by the Township Council.

During the year ended March 31, 2005, the Township incurred expenditures in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Amount of Expenditure</u>	<u>Budget Variance</u>
General Fund:			
Clerk	23,090	24,146	1,056

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

At March 31, 2005, the book value of the Township's deposits, consisting primarily of demand deposits, was \$1,096,639 with a corresponding bank balance of \$1,134,827. Township deposits are partially insured by the Federal Deposit Insurance Corporation. Of the bank's balance, approximately \$738,827 is uninsured (credit risk Category #1).

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates the financial institution it deposits funds with and assesses the level or risk with this institution; only institutions with an acceptable estimated risk level are used as depositories. The Township deposits are in accordance with statutory authority.

B. Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amounts would be immaterial.

Lee Township
Notes to Financial Statements
March 31, 2005

C. Capital Assets

A summary of changes in general fixed assets follows:

	Balance <u>4/1/04</u>	Additions	Deletions	Balance <u>3/31/05</u>
Land and Land Improvements	22,297	-	-	22,297
Building and Building Improvements	149,179	-	-	149,179
Equipment	74,700	-	-	74,700
Park and Park Improvements	40,986	-	-	40,986
Vehicles	<u>306,565</u>	-	-	<u>306,565</u>
Total	<u>593,727</u>	-	-	<u>593,727</u>
Less - Accumulated Depreciation	<u>266,664</u>	<u>27,309</u>	-	<u>293,973</u>
Capital Assets - Net	<u>327,063</u>	<u>27,309</u>	-	<u>299,754</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:
General Government \$ 7,385
Public Safety 18,724
Public Works 1,200

Total depreciation expense - governmental activities \$ 27,309

D. Interfund Receivables, Payables and Transfers

The amounts of interfund receivables and payables are as follows:

	Interfund <u>Receivable</u>	Interfund <u>Payable</u>
General Fund	\$ 284,467	\$ 367,522
Fire Fund	118,282	75,516
Solid Waste Fund	239,404	201,039
Oakridge Drive Fund	2,973	-
Sian Drive Fund	1,198	-
Ireland Drive Fund	5,395	-
Manitou Trail Fund	270	-
Tax Fund	-	-
	<u>\$ 651,989</u>	<u>7,912</u>
		<u>\$ 651,989</u>

Lee Township
Notes to Financial Statements
March 31, 2005

E. Long-Term Debt

1. Primary Government

The Township had two Long-Term Debt obligations during the year ended March 31, 2005. The long-term debt of the Township may be summarized as follows:

	Balance <u>3/31/04</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>3/31/05</u>
Loan with Chemical Bank related To a purchase of a 2000 Ford 550 For the Fire Department. Original Loan of \$38,000 at 5.66% with a Payment of \$9,500 plus interest Per year	9,500	-	9,500	-
Drain-at-large related to Emma #281 Drain	<u>18,126</u>	<u>-</u>	<u>6,042</u>	<u>12,084</u>
Total	<u>27,626</u>	<u>-</u>	<u>15,542</u>	<u>12,084</u>

The annual principal and interest requirements through maturity for all debt outstanding as of March 31, 2005 are as follows:

	<u>Annual Principal Payments</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
2006	6,042	650	6,692
2007	<u>6,042</u>	<u>325</u>	<u>6,367</u>
	<u>12,084</u>	<u>975</u>	<u>13,059</u>

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township manages this risk through policies held with external insurance companies.

Lee Township
Notes to Financial Statements
March 31, 2005

B. Retirement Benefits

The Township provides pension benefits to its employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by Manufacturers Life Insurance Company. The Township is required to contribute 15% of the participant's salary. Employees are able to voluntarily contribute up to 10% of their after-tax salary. Plan provisions and contribution requirements are established and amended by the Lee Township Board.

C. Property Taxes

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied on December 1 and are payable through February 28, at which time they are returned delinquent to the Midland County Treasurer.

The full 2003 levy of the Township's property tax is recognized as revenue of the current period. The uncollected property taxes as of March 31, 2005 are recognized as a current receivable. The Township bills and collects its own property taxes and taxes for other governmental units. Collection and remittance of property taxes are accounted for in the Tax Agency Fund.

Property taxes levied included .8671 mill for general operations, 2.0 mills for fire operations, and \$95 per residence for solid waste collection for the current year. The 2004 state equalized value and taxable value of property located in the Township totaled \$78,667,325 and \$58,951,611, respectively. The delinquent real property taxes of Lee Township are purchased by the County of Midland. The taxes have been recorded as a revenue for the current year.

D. Post Employment Benefits

The Township currently does not provide post employment benefits to employees.

E. Total – Memorandum Only

The combined financial statements of fund types and account groups present total columns for the year ended March 31, 2005, which aggregate the columnar statements by fund type and account group. These columns are presented only for comparative purposes and should not be construed as presenting consolidated financial information.

Lee Township
Notes to Financial Statements
March 31, 2005

F. New Governmental Reporting Model

The Governmental Accounting Standards Board issued a new reporting model titled *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments* in June of 1999. In accordance with Michigan Department of Treasury guidelines, the Village has implemented the provisions of this statement. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Financial statements prepared using a full accrual accounting for all of the Village's activities.

REQUIRED SUPPLEMENTAL INFORMATION

Lee Township
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property Taxes	\$ 51,058	\$ 51,058	\$ 53,288	\$ 2,230
State Revenue Sharing	340,000	340,000	241,308	(98,692)
Interest Revenue	-	-	5,108	5,108
Rental Revenue	1,200	1,200	2,475	1,275
Charges for Services	-	-	2,514	2,514
Licenses and Permits	-	-	100	100
Cemetery Lot Sales	-	-	1,700	1,700
Other Fees	-	-	3,138	3,138
Land Division Revenue	-	-	650	650
Miscellaneous Revenue	-	-	1,978	1,978
Total Revenues	392,258	392,258	312,259	(79,999)
Expenditures				
Township Board	169,500	169,500	41,748	127,752
Supervisor	18,720	18,720	14,114	4,606
Assessor	22,500	22,500	17,159	5,341
Elections	7,600	7,600	2,785	4,815
Clerk	23,090	23,090	24,146	(1,056)
Board of Review	2,600	2,600	1,212	1,388
Treasurer	27,210	27,210	23,492	3,718
Cemetery	20,000	20,000	6,505	13,495
Township Hall	21,600	21,600	16,163	5,437
Library	25,000	25,000	20,339	4,661
Planning and Zoning	21,100	21,100	17,069	4,031
Other General Services	45,000	45,000	7,512	37,488
Drains	10,000	10,000	1,280	8,720
Road Maintenance	116,000	116,000	75,589	40,411
Street Lighting	6,000	6,000	4,322	1,678
Park	27,300	27,300	15,023	12,277
Code Enforcement	7,840	7,840	7,099	741
Capital Outlay	-	-	-	-
Total Expenditures	571,060	571,060	295,557	275,503
Excess (Deficiency) of Revenues over Expenditures	(178,802)	(178,802)	16,702	195,504

The accompanying notes are an integral part of this financial statement.
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Lee Township
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Operating Transfers In (Out)	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures and Operating Transfers Out	(178,802)	(178,802)	16,702	195,504
Fund Balance - Beginning of Year	853,417	853,417	853,417	-
Fund Balance - End of Year	<u>\$ 674,615</u>	<u>\$ 674,615</u>	<u>\$ 870,119</u>	<u>\$ 195,504</u>

The accompanying notes are an integral part of this financial statement.

Lee Township
Required Supplementary Information
Budgetary Comparison Schedule
Fire Fund
For the Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Charges for Services	\$ 40,600	\$ 40,600	\$ 24,450	\$ (16,150)
Special Assessments	111,170	111,170	100,167	(11,003)
Interest Revenue	-	-	1,571	1,571
Miscellaneous Revenue	-	-	967	967
Total Revenues	<u>151,770</u>	<u>151,770</u>	<u>127,155</u>	<u>(24,615)</u>
Expenditures				
Public Safety	<u>169,250</u>	<u>169,250</u>	<u>101,454</u>	<u>67,796</u>
Total Expenditures	<u>169,250</u>	<u>169,250</u>	<u>101,454</u>	<u>67,796</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(17,480)</u>	<u>(17,480)</u>	<u>25,701</u>	<u>43,181</u>
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Operating Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures and Operating Transfers Out	<u>(17,480)</u>	<u>(17,480)</u>	<u>25,701</u>	<u>43,181</u>
Fund Balance - Beginning of Year	<u>168,857</u>	<u>168,857</u>	<u>168,857</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 151,377</u>	<u>\$ 151,377</u>	<u>\$ 194,558</u>	<u>\$ 43,181</u>

The accompanying notes are an integral part of these financial statements.

Lee Township
Required Supplementary Information
Budgetary Comparison Schedule
Solid Waste Fund
For the Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Special Assessments	\$ 148,675	\$ 148,675	\$ 145,926	\$ (2,749)
Total Revenues	<u>148,675</u>	<u>148,675</u>	<u>145,926</u>	<u>(2,749)</u>
Expenditures				
Public Works	<u>169,911</u>	<u>169,911</u>	<u>117,229</u>	<u>52,682</u>
Total Expenditures	<u>169,911</u>	<u>169,911</u>	<u>117,229</u>	<u>52,682</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(21,236)</u>	<u>(21,236)</u>	<u>28,697</u>	<u>49,933</u>
Operating Transfers In	-	-	-	-
Operating Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures and Operating Transfers Out	<u>(21,236)</u>	<u>(21,236)</u>	<u>28,697</u>	<u>49,933</u>
Fund Balance - Beginning of Year	<u>5,729</u>	<u>5,729</u>	<u>5,729</u>	<u>-</u>
Fund Balance - End of Year	<u><u>\$ (15,507)</u></u>	<u><u>\$ (15,507)</u></u>	<u><u>\$ 34,426</u></u>	<u><u>\$ 49,933</u></u>

The accompanying notes are an integral part of these financial statements.

SUPPLEMENTAL DATA

Lee Township
General Fund
Analysis of Revenue and Other Financing Sources
For the Year Ending March 31, 2005

REVENUES:

Current Taxes:

Property taxes	\$ 53,288
Administration fees	-
	<u>53,288</u>

State Grants:

Liquor license fees	-
Sales tax	241,308
	<u>241,308</u>

Interest and Rent:

Interest	5,108
Rent	2,475
	<u>7,583</u>

Other Revenue:

Fees	4,138
Permits	100
Cemetery Fees	3,864
Refunds/reimbursements	-
Other/miscellaneous	1,978
	<u>10,080</u>

Total revenues	<u>312,259</u>
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OTHER FINANCING SOURCES:

Transfers from other funds	-
Total other financing sources	<u>-</u>

Total revenues and other financing sources	<u>\$ 312,259</u>
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The accompanying notes are an integral part of these financial statements.

Lee Township
General Fund
Analysis of Expenditures and Other Financing Uses
For the Year Ending March 31, 2005

EXPENDITURES:

Legislative:

Board/Council/Legislative:

Personal services	\$ 9,670
Supplies	86
Other services and support	31,992
	<u>41,748</u>

General Government:

Supervisor:

Personal services	13,127
Supplies	108
Other services and support	879
	<u>14,114</u>

Clerk:

Personal services	9,970
Supplies	525
Other services and support	13,651
	<u>24,146</u>

Treasurer:

Personal services	15,274
Supplies	2,228
Other services and support	5,990
	<u>23,492</u>

Building and Grounds:

Personal services	3,626
Supplies	3,039
Other services and support	9,498
	<u>16,163</u>

Attorney:

Legal fees	2,027
	<u>2,027</u>

Assessor:

Other services and support	17,159
	<u>17,159</u>

The accompanying notes are an integral part of these financial statements.

Lee Township
General Fund
Analysis of Expenditures and Other Financing Uses
For the Year Ending March 31, 2005

EXPENDITURES, continued:

General Government (continued):

Other General Services:

Other services and support

5,485

5,485

Elections:

Personal services

2,480

Other services and support

305

2,785

Board of Review:

Personal services

355

Other services and support

857

1,212

Cemetery:

Other services and support

6,505

6,505

Library:

Other services and support

20,339

20,339

Parks:

Personal services

4,044

Supplies

4,946

Other services and support

6,033

15,023

Public Safety:

Liquor Law Enforcement:

Personal services

711

711

Ordinance Enforcement:

Personal services

6,388

6,388

The accompanying notes are an integral part of these financial statements.

Lee Township
General Fund
Analysis of Expenditures and Other Financing Uses
For the Year Ending March 31, 2005

EXPENDITURES, continued:

Planning:

Personal services	
Supplies	10,223
Other services and support	1,269
	<u>2,472</u>
	<u>13,964</u>

Zoning:

Personal services	
Supplies	450
Other services and support	1,025
	<u>1,630</u>
	<u>3,105</u>

Public Works:

Road Maintenance:

Other services and support	
	<u>75,589</u>
	<u>75,589</u>

Street Lighting:

Other services and support	
	<u>4,322</u>
	<u>4,322</u>

Drains:

Other services and support	
	<u>1,280</u>
	<u>1,280</u>

Capital Outlays:

Capital Outlay	
	<u>-</u>
	<u>-</u>

OTHER FINANCING USES:

Transfers to other funds	
	<u>-</u>
	<u>-</u>

Total expenditures and other financing uses	<u>\$ 295,557</u>
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The accompanying notes are an integral part of these financial statements.

Lee Township
Combining Balance Sheet
Non-Major Governmental Funds
March 31, 2005

Assets	Oakridge Drive Fund	Sian Drive Fund	Ireland Drive Fund	Manitou Trail Fund	Total Non-Major Governmental Funds
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Receivable	-	-	-	-	-
Property Taxes and Assessments Receivable	327	300	270	-	897
Prepaid Expenses	-	-	-	-	-
Due from other funds	2,973	1,198	5,395	270	9,836
Total Assets	\$ 3,300	\$ 1,498	\$ 5,665	\$ 270	\$ 10,733
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes Payable	-	-	-	-	-
Pension Contribution Payable	-	-	-	-	-
Accrued Interest	-	-	-	-	-
Accrued Wages Payable	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total Liabilities	-	-	-	-	-
Fund Balances:	-	-	-	-	-
Unreserved:					
Designated					
Undesignated	3,300	1,498	5,665	270	10,733
Total fund balances	3,300	1,498	5,665	270	10,733
Total Liabilities and Fund Balances	\$ 3,300	\$ 1,498	\$ 5,665	\$ 270	\$ 10,733

The accompanying notes are an integral part of these financial statements.

Lee Township
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Non-Major Governmental Funds
For the Year Ended March 31, 2005

	Oakridge Drive Fund	Sian Drive Fund	Ireland Drive Fund	Manitou Trail Fund	Total Non-Major Governmental Funds
Revenues:					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
State revenue sharing	-	-	-	-	-
Charges for services	-	-	-	-	-
Special Assessments	600	525	1,140	245	2,510
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Revenues	<u>600</u>	<u>525</u>	<u>1,140</u>	<u>245</u>	<u>2,510</u>
Expenditures:					
Public Safety:					
Public Works	137	267	604	175	1,183
Capital outlay	-	-	-	-	-
Total Expenditures	<u>137</u>	<u>267</u>	<u>604</u>	<u>175</u>	<u>1,183</u>
Excess (deficiency) of revenues over expenditures	<u>463</u>	<u>258</u>	<u>536</u>	<u>70</u>	<u>1,327</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>463</u>	<u>258</u>	<u>536</u>	<u>70</u>	<u>1,327</u>
Fund balances, beginning of the year	<u>2,837</u>	<u>1,240</u>	<u>5,129</u>	<u>200</u>	<u>9,406</u>
Fund balances, end of the year	<u>\$ 3,300</u>	<u>\$ 1,498</u>	<u>\$ 5,665</u>	<u>\$ 270</u>	<u>\$ 10,733</u>

The accompanying notes are an integral part of these financial statements.

Lee Township
Tax Agency Fund
Statement of Changes in Assets and Liabilities
For the Year Ended March 31, 2005

	Balance at April 1, 2004	Additions	Deductions	Balance at March 31, 2005
<u>Assets</u>				
Cash in bank	\$ 263,153	\$ 1,826,045	\$ 2,079,460	\$ 9,738
<u>Liabilities</u>				
Due to General Fund	\$ 48,050	\$ 70,077	\$ 110,215	\$ 7,912
Due to Fire Fund	93,546	100,116	193,662	-
Due to Solid Waste Fund	121,019	118,085	239,104	-
Due to Midland County	336	882,310	882,646	-
Due to Bullock Creek Schools	31	471,827	471,858	-
Due to Breckenridge Community Schools	85	54,070	54,155	-
Due to Meridian Public Schools	-	8,436	8,436	-
Due to Delta College	58	108,582	108,640	-
Due to Midland County Educational Service Agency	-	30	30	-
Due to State of Michigan	-	103	103	-
Overpayments	28	12,409	10,611	1,826
	<u>\$ 263,153</u>	<u>\$ 1,826,045</u>	<u>\$ 2,079,460</u>	<u>\$ 9,738</u>

The accompanying notes are an integral part of these financial statements.

Dale L. Stanton
Certified Public Accountant

Management Letter

June 28, 2005

To The Township Board
Lee Township
Midland, Michigan

Dear Board Members:

I have completed my audit of the financial statements of the Lee Township for the year ended February 28, 2005, and have issued my report thereon dated June 28, 2005. As part of my examination, I made a study and evaluation of the Township's system of internal accounting control to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of my study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Township's financial statements. My study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Township's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute, assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

My study and evaluation was made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of the Lee Township taken as a whole.

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The following comments and recommendations are submitted to assist in improving procedures and controls. I would be pleased to discuss these suggestions or to respond to any questions at your convenience.

Accounting Software

The Township implemented a new accounting software package during the current fiscal year. This package, Icommader, is a modular program designed by a small, mid-Michigan accounting firm. While this package does have some strengths that are directly beneficial to the Township, there are some drawbacks to this software that the Township should address. Most important of these items is a lack of an integrated bank reconciliation routine that would allow the Township to reconcile the general ledger activity to the bank statement directly within the software.

The Township has been attempting to cover this by preparing a separate bank reconciliation, but problems occurred when the Township failed to reconcile the general ledger activity per the ICommander software to the bank statement. Instead, transactions were entered into a spreadsheet, and this spreadsheet was then reconciled to the bank. Because the Clerk maintains the detailed general ledger within the ICommander system, and this system is used to track budget to actual activity, it is strongly recommended that the detailed general ledger produced from the ICommander software be reconciled to the bank statement.

There have been other problems related to the use of this package that are inherent in this type of software package. Postings within the software require a basic knowledge of general accounting, and several mispostings were noted.

Interim Financial Reporting

As described in the *Uniform Accounting Procedures Manual* for Counties and Local Units of Government in Michigan, legislative bodies must be provided periodic financial reports. The required periodic reports and suggested frequency should include the following:

- Summary report of cash activity by fund (monthly)
- Summary report of cash activity by bank account, certificate of deposit and investment account (monthly)
- Balance sheet by fund (monthly)
- Detail revenue by fund – budget to actual (monthly)
- Detail expenditures by fund – budget to actual (monthly)
- List of bills to be approved for payment (each meeting)
- Separate list of bills paid prior to approval pursuant to a council approved policy (each meeting)

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Not all of these reports are routinely presented to the Board for review. I therefore recommend that the above reports be prepared to assist the Board with its oversight responsibility. State law requires a budget for general and special revenue funds. Expenditures within these funds cannot exceed the budget.

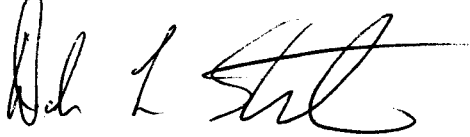
Recording of Transactions

I noticed that certain Township disbursements were posted directly to revenue accounts in the Township's Chart of Accounts. The Michigan Department of Treasury's *Uniform Accounting Procedures Manual* outlines how revenues and expenditures should be classified. I recommend that the Township refrain from netting expenses directly against revenue accounts.

This report is intended solely for the information and use of the Township Board, management, and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I would like to thank the Township staff for their assistance during the course of my audit. Again, if the Board would like to discuss any matters discussed in this letter, or would like assistance implementing any of my suggestions, please do not hesitate to contact me.

Regards,



Dale L. Stanton
Certified Public Accountant